**Philosophy 1317: Handout for Ch 5**

Here are some key themes from Cassidy’s article, ‘The Greed Cycle’. I strongly recommend the PBS Frontline video, ‘Bigger Than Enron’ (available at Fondren and in the Frontline archives on-line), which illustrates many of the themes and incidents discussed in Cassidy’s article. Moreover, when deliberating over Review Questions 5 and 6, you should keep the events and themes emphasized in *Inside Job* in mind.

* *share-holder value movement*: a relatively new orientation in the business community, which holds that the sole/primary responsibility of corporate officers is to serve the interests of those who own the firm (by increasing profits, raising stock prices), in contrast to the traditional view that corporate officers should work to aim at the satisfaction and well-being of employees and customers while making a reasonable profit for investors.
* *principal-agent* *problem*: how to ensure that an individual/group hired to perform a service or take on a task — the “agent” — will in fact serve the interests of the individual/group that hired them — the “principal” — rather than serving their own personal interests?
  + threat of hostile takeovers and leveraged buyouts as incentive to keep stock prices high; the eventual outcome was often disastrous for most of the parties involved, and the model has been largely abandoned
  + *stock options* as solution — One can bring about a community of interest among shareholders and managers by paying the latter with stock they want managers to raise the value of: award them the option of buying at some later date a number of shares at the current or “strike” price; once they exercise this option, the executives can then sell the stock at the market price (which will presumably be much higher).
    - *problem*: gives management strong incentive to focus on short run, and to engage in various accounting tricks, as well as outright fraud to inflate the corporation’s earnings picture, often with disastrous results